



# WEEKLY OUTLOOK

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## **MARKET SURPRISES AND USDA CORN PROJECTIONS**

The USDA's May 10 report on U.S. and world supply and consumption prospects contained the first projections for the 2001-02 marketing year (excluding non-U.S. soybeans). For wheat, the projections for the U.S. crop year included the official estimate of the potential size of the 2001 winter wheat crop. That crop is estimated at 1.7 billion bushels, 221 million smaller than the 2000 harvest, 756 million smaller than the record harvest of 1981, and the smallest crop since 1978. Compared to last year, the largest declines are expected in Kansas, Oklahoma, South Dakota, and Washington. The hard red winter wheat crop is estimated at 718.1 million bushels, 125.6 million smaller than the 2000 crop, 525.5 million smaller than the record crop of 1982, and the smallest crop since 1989. The estimated size of the winter wheat crop was smaller than expected.

Based on seeding intentions, the spring wheat crop is forecast at 620 million bushels, about 40 million smaller than the 2000 crop. Production of all classes of wheat is projected at 1.961 billion bushels, 262 million smaller than the 2000 crop. As a result, U.S. inventories of wheat are expected to decline from 829 million bushels on June 1, 2001 to 591 million on June 1, 2002.

For soybeans, the USDA projected the 2001 harvest at a record 2.985 billion bushels, based on planting intentions of 76.7 million acres, harvested acreage of 75.6 million, and a trend yield of 39.5 bushels per acre. Consumption of U.S. soybeans during the 2001-02 marketing year is expected to grow by a very modest 15 million bushels. The slow growth is due in part to large competing supplies in South America. As a result, U.S. soybean inventories are expected to grow from 295 million bushels on September 1, 2001 to 500 million bushels on September 1, 2002. The projections for the up-coming marketing year were generally in line with expectations.

Based on planting intentions of 76.7 million acres, a projection of harvested acreage for grain of 69.9 million acres, and a trend yield of 137 bushels per acre, the USDA sees a 2001 U.S. corn crop of 9.575 billion bushels. That projection is 393 million bushels smaller than the 2000 harvest and close to the expected level. However, the USDA's projection of U.S. corn consumption during the 2001-02 marketing year was somewhat smaller than expected.

Food, seed, and industrial use of corn is expected to increase by 70 million bushels, to a total of 2.04 billion bushels. The increase presumably reflects expected increases in ethanol production. Exports of U.S. corn are expected to grow by a modest 25 million bushels, to a total of 1.925 billion. Chinese exports are expected to decline by about 80 million bushels next year, even though production is expected to increase by 790 million bushels. Shipments from Argentina are projected to increase by 30 million bushels.

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Concerns by some importers about GMO corn may also tend to keep U.S. exports at a modest level, given generally ample supplies in other areas.

Domestic feed use of corn is expected to decline by 125 million bushels (about 2 percent). While pork and poultry production are expected to expand modestly during the year ahead, fewer cattle are expected to be fed. In addition, sorghum feeding is expected to rebound by 55 million bushels if production rebounds from the low level of 2000. Use of U.S. corn for all purposes during the 2001-02 marketing year is projected at 9.665 billion bushels, 30 million less than the projection for the current marketing year. As a result, stocks of U.S. corn are expected to decline from 1.998 billion bushels on September 1, 2001 to 1.918 billion on September 1, 2002. The 80 million bushel decline is considerably smaller than the 200 to 400 million reduction projected by some private analysts.

As for prices, the USDA projected marketing year average prices as follows: wheat, \$2.75 to \$3.35, compared to \$2.63 for the current year; corn, \$1.65 to \$2.05, compared to \$1.80 to \$1.90 for the current year; and soybeans, \$3.90 to \$4.50, compared to \$4.40 for the current year.

December 2001 corn futures traded to a new contract low of just under \$2.16 following the report. November 2001 soybean futures held just above last month's low of \$4.175. It is early in the growing season, so that significant changes in supply and consumption projections may occur. Most interest, of course, will be on U.S. growing conditions and yield prospects. Prices appear to be low enough for now. In addition to technical buying, some early season weather concerns should result in a modest recovery in prices. Until there is some indication that supplies will be smaller, however, prices are likely to remain at the low levels experienced since the summer of 1998. Persistence of low prices could have a direct impact on the nature of new farm legislation.

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